

Message Text

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SUBJECT: PROVIDENT FUND-COORDINATING COMMITTEE OF GOVERNMENT
BUDGET EXPERTS (CCG)

REF: A. CCG/W(74)37(4TH REV), PARIS, APRIL 30, 1975

B. USNATO 2388

XUMMARY: AT JULY10-11 MEETING OF CCG MISSION PLANS TO SEEK VIEWS
ON MODIFIED DEFINITION OF PROVIDENT FUND HOLDINGS TO PREVENT POSSIBLE
LARGE FINANCIAL LOSS TO GOVERNMENTS. DEPARTMENT COMMENTS PARA 4A) AND
4B) WOULD BE APPRECIATED. END SYMMARY

1. MISSION IS CONCERNED OVER CONTEMPLATED PROCEDURE FOR DISPOSING
A PROVIDENT FUND ASSETS AFTER VALIDATION OF PAST SERVICE, AS OUT-
LINED IN REF A, PARA 26, FOR MISSION BELIEVES IT WOULD RESULT IN A
LARGE AND UNWARRANTED ADDITIONAL COST TO GOVERNMENTS.

2. CENTRAL TO PROBLEM IS DEFINITION OF INDIVIDUAL'S (QUOTE)
HOLDINGS IN THE PROVIDENT FUND,(UNQUOTE) WHICH FORM BASIS FOR
AMOUNT EMPLOYEE WILL RETAIN AFTER PAYING VALIDATION COST. MISSION
BELIVES WE SHOULD NOT ACCEPT THE DEFINITION OF THE INDIVIDUAL'S
HOLDINGS AS THE SAME AS THE INDIVIDUALS ACCOUNT, FOR AT NATO
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THE TOTAL (MARKET) VALUE OF FUND HOLDINGS AMOUNTS TO ONLY ABOUT
87 PERCENT OF THE SUM OF THE INDIVIDUAL ACCOUNTS. (THIS CONDITION CAME
ABOUT AS THE RESULT OF 1) REGULATIONS WHICH ALLOW FUND HOLDINGS
TO BE ACCOUNTED FOR AT PURCHASE PRICE RATHER THAN MARKET VALUE,

AND 2) THE RECENT DECISION OF THE SYG THAT FUND MEMBERS SHOULD NOT BE REQUIRED TO FOREGO INTEREST PROFITS IN THEIR ACCOUNTS OR BE REQUIRED TO ACCEPT DEDUCTIONS IN THEIR ACCOUNTS REPRESENTING THEIR SHARE OF FUND LOSSES FROM FALLING MARKET VALUE OR ADVERSE EXCHANGE FLUCTUATIONS. SEE REF B.)

3. UNDER THESE CIRCUMSTANCES, MISSION BELIEVES A PROPOSAL TO REGARD GOVERNMENTS AS JOINT OWNERS OF THE PROVIDENT FUND AS FROM JULY 1, 1974 UNTIL FUND COULD BE LIQUIDATED IN 5 OR 10 YEARS (I.E., (QUOTE) AS SOON AS IS CONSISTENT WITH ORDERLY MANAGEMENT (UNQUOTE)) WOULD BE TANTAMOUNT TO THE FRANTING OF AN INTEREST-FREE LOAN TO BENEFIT FUND MEMBERS AND TO PLUG UP THE 13 PERCENT GAP NOTED ABOVE.

4. MISSION SUGGESTS:

A) (QUOTE) INDIVIDUAL'S PROVIDENT FUND HOLDINGS (UNQUOTE) SHOULD BE DEFINED AS EQUAL TO THE INDIVIDUAL'S ACCOUNT AS OF THE TIME OF VALIDATION (JULY 1, 1974?) TIMES A COEFFICIENT WHICH IS THE QUOTIENT OF MARKET VALUE OF THE ACTUAL PROVIDENT FUND HOLDINGS AS OF THAT DATE DIVIDED BY THE TOTAL OF ALL INDIVIDUAL ACCOUNTS OF FUND MEMBERS AS OF THAT DATE.

B) TWO OR THREE YEARS SHOULD BE SUFFICIENT FOR ORDERLY LIQUIDATION OF HOLDINGS IF THE SUGGESTION IN A) ABOVE IS ADOPTED.

5. MISSION PLANS TO SEEK OTHER DELEGATIONS' VIEWS ON THESE SUGGESTIONS AT CCG MEETING JULY 10-11 IN BRUSSELS.
PEREZ

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